

Diffusion of Innovations

- a Marketing Management Tool

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September 22nd 2005

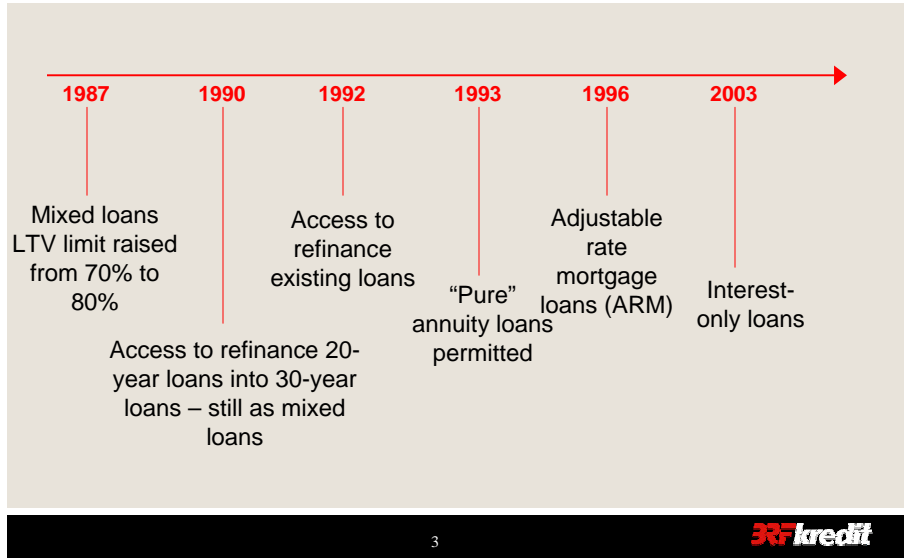


BRFkredit – headlines

- The independent supplier of mortgage credit
- Among the cheapest suppliers in the market
- Complete range of products
- Portfolio growth of DKK 10.4bn in 2005 and DKK 10.6bn during the last 12 months
- BRFkredit has produced solid returns – profit before tax on average DKK 531m in the last five years
- High solvency ratio – 14%
- Aa1 rating on mortgage bonds

Top 10	
<i>Lending in 2004 (DKK bn)</i>	
1. Realkredit Danmark	517
2. Danske Bank	458
3. Nykredit	428
4. Nordea	351
5. Totalkredit	195
6. Nordea Kredit	159
7. BRFkredit	143
8. Jyske Bank	74
9. DLR Kredit	69
10. FIH Erhvervsbank	54

Product innovation in mortgage lending goes hand in hand with changes in regulation



1st example: RD's introduction of the Flex loan

- BRFkredit developed adjustable rate mortgage loans in 1976
- The product was dropped when politicians banned cash loans in 1985
- The product was never really successful because of the prevailing interest rate conditions in the late 1970s and because homeowners were unwilling to take on the product
- RD re-introduced the Flex loan (Flexlån) in 1995. Why did they achieve success when the product wasn't new?

Massive press coverage...

A collage of newspaper headlines from Denmark regarding Flexlån. The headlines include: "Ekspllosion i flexlån", "Ekspert: Flexlån er sikre nok", "Gældsføde ved Flexlån", "Husejere advares m...", "Nationalbank direktøren advarer mod flexlån", and "Æ: Flexlån kan sende økonomien på nedtur". Annotations include a red arrow pointing to the top right with the text "Good ones..." and another red arrow pointing to the bottom left with the text "Bad ones ...". A text box at the bottom right asks "Is bad press coverage better than no press coverage at all...?". The 3F kredit logo is in the bottom right corner.

Good ones...

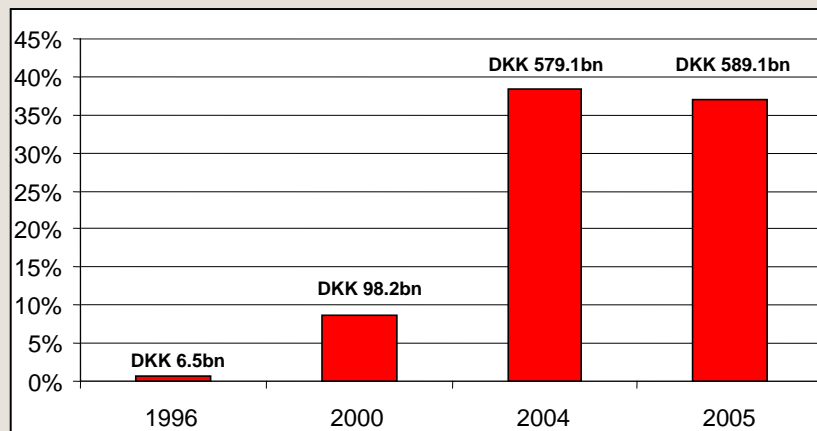
Bad ones ...

Is bad press coverage better than no press coverage at all...?

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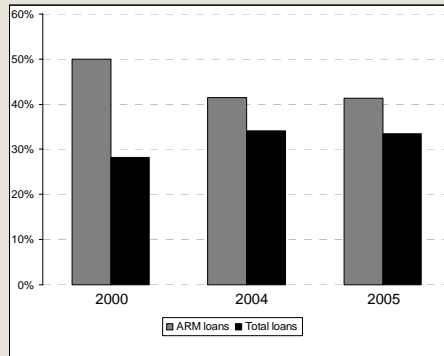
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Strong growth in new lending issued as ARM loans



Note: The number above each of the columns shows the volume of new lending in DKK bn issued as ARM loans.

...and RD had a solid head start... and posted healthy profits...



Estimated effects:

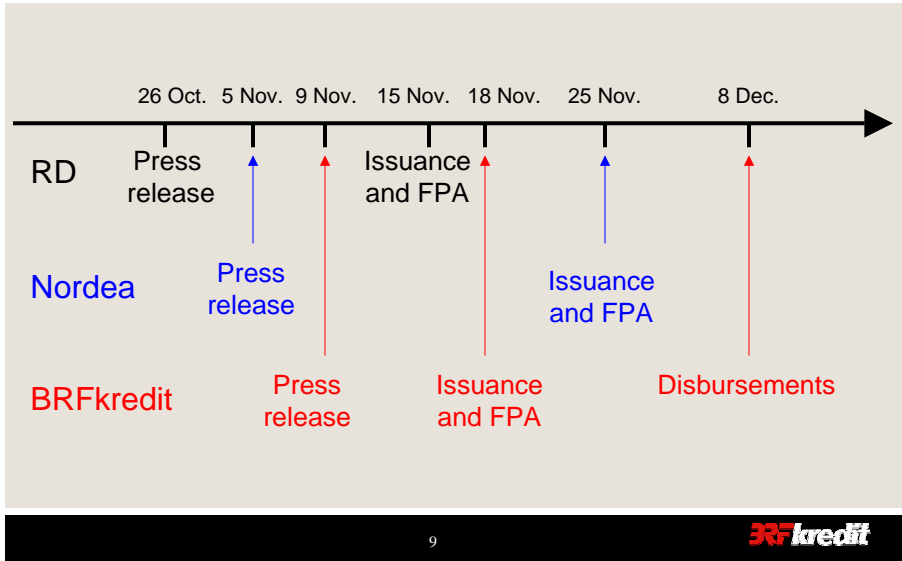
- Portfolio: + DKK 30bn
- Market share: + 3 %points
- Net profits: + DKK 1bn

Lesson no.1: Innovation paid off – back then!

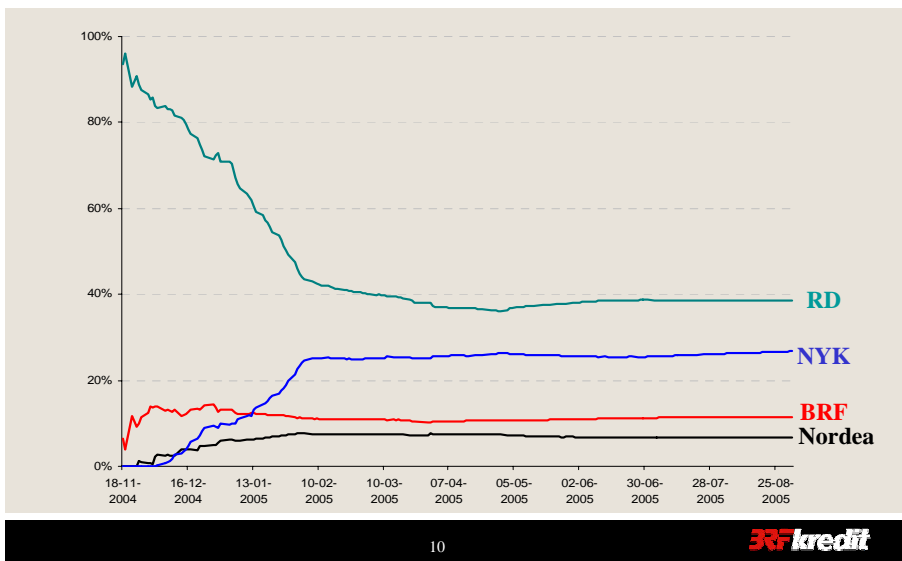
RD tried to repeat the success last year with "Flexgaranti"...



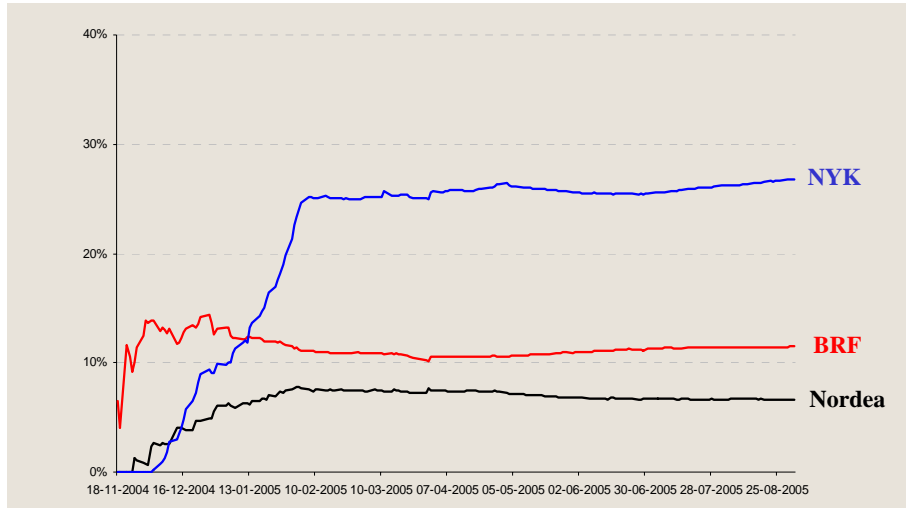
...but now the competitors know the name of the game!



RD was only in the lead for a very short while



BRFkredit has a relatively large market share of Garantilån (guaranteed interest-rate loans)...



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BRFkredit

...maybe due to the lowest prices...

**Danmarks
billigste
5% Garantilån**

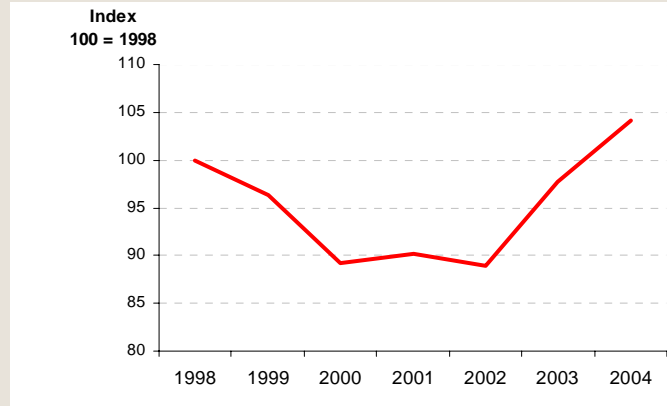
Klik her og spar tusindvis af kroner

BRFkredit

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BRFkredit

...and aggressive marketing...



Note: The graph shows developments in BRFkredit's total marketing costs since 1998, indexed.

... and perhaps because BRFkredit has the most flexible product range!

Interest-only loans:



Existing ARM-loan clients can have IO-option without refinancing?



Clients can defer principal payments until the loan matures?



"n" years of deferred loan repayments on ARM (5) for instance



Multi-ride ticket on IO for fixed-rate loans



"Guaranteed interest-rate loans":

Offers guaranteed interest-rate loans



Offers guarantee interest-rate loans with multi-ride ticket on IO



Today, the release of a new product is about:



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The lessons learned...

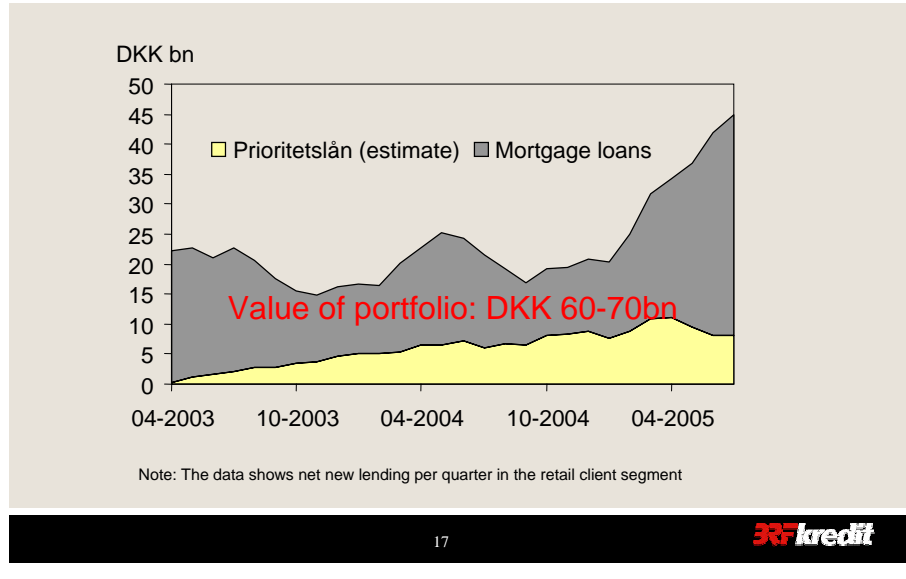
Lesson no. 2: Innovation can't shift market shares permanently – unless you're completely out of the market place – or you aren't visible!

Lesson no. 3: But innovation still pays off. There are plenty of opportunities. So far, more than DKK 100bn of guaranteed interest-rate loans are sold. "Media spinning" at least as important as product development itself.

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Response from the competitors: Secured bank loans (Prioritetslån)



The success of Prioritetslån (secured bank loans) is a mystery

	Secured bank loans (Prioritetslån) ⁽¹⁾				Mortgage loans ⁽²⁾ (realkreditlån)
	Danske Bank	Nordea	Jyske Bank	Sydbank	
Total rate	3.45 – 7.45	4.0 – 7.0	3.49 – 7.71	3.75 – 5.75	2.55 – 2.75
Margin	1.3 – 5.3	1.85 – 4.85	1.34 – 5.56	1.6 – 3.6	0.30 – 0.50

⁽¹⁾ Rates are linked to Danmarks Nationalbank's lending rate (repo rate), currently 2.15%.

⁽²⁾ ARM loans with annual ratefixing (F1-loan).

- Total society loss from this specific type of regulation amounts to at least DKK 0.6-0.7bn every year

Lesson no. 4: Politicians have a large share of the responsibility in relation to innovation and competition. It is grotesque, though, when innovation leads to higher consumer prices because regulators can't provide a "level playing field"

Process innovation

- Innovation in distribution:
 - Financial supermarkets
 - New channels
 - Self-service
 - Other measures
- Innovation in the organisation
- Innovation in the management and development of the organisation

Conclusions

- Everybody goes for innovation
 - The regulators are certainly responsible for ensuring that this continues to be the case
- Huge resources are invested in the development of new products and concepts
- And still, this won't shift any significant market shares in the long run – as long as the competitors follow suit, but...
 - Improved earnings
 - Beneficial for society – everybody wins – the State, the consumers and the industry – but with growing vulnerability in the housing market as a consequence